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January 06, 2009

via electronic mail & UPS

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF VENTURA COUNTY HEALTH CARE PLAN MEDICAL LOSS  
RATIO SUBMISSION**

Dear Ms. Lopez

The Department of Managed Health Care (DMHC) is pleased to provide the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Ventura County Health Care Plan (VCHCP) HFP loss ratio submission for the period July 1, 2006 through June 30, 2007. This report outlines the project objectives, methodology and results.

I Objectives: The purpose of the loss ratio evaluation is to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers reported by VCHCP.

As part of this evaluation, DMHC will perform the following:

- A Determine whether 100% of the children who received services paid by VCHCP were enrolled in the HFP at the time the services or capitated coverage were provided;
- B Summarize the total capitation and benefit payments within the detailed data provided by VCHCP and compare the total payments to the amount reported on Schedule 6 submitted by VCHCP;
- C Identify and document additional reimbursement made, other than payments to providers for services, by VCHCP, and evaluate the appropriateness of those payments to inclusion in the medical expenses reported on Schedule 6; and
- D Summarize the total payments made by VCHCP for the HFP subscriber, and based on the steps above, recalculate the loss ratio and compare it to the loss ratio submitted by VCHCP on Schedule 6

To achieve the objectives outlined above, DMHC performs data analysis on information provided by MRMIB and VCHCP and corresponds with management personnel at VCHCP. Primary contacts at VCHCP were Larry Keller, Insurance Services Administrator, Karen Davis, CFO and Dee Pupa, Fiscal Services. The methodology and results for each of the objectives are described below.

## II Methodology

### A Determine whether 100% of the children who received services paid by VCHCP were enrolled in the HFP at the time the services were provided.

- (a) The Department obtained electronic files containing detailed capitation or claims payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for which payments were made for benefits as a VCHCP subscriber during the period of July 1, 2006 through June 30, 2007.
- (b) Using the two files, the Department compared the Client Index Number (CIN) and Date of Service on VCHCP's capitation files to determine if there were any payments made by VCHCP for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 –Capitation, Fee for Service or Pharmacy payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims/Capitation Payments Category	Data Base Total		Ineligible Data		
	Number of claims/services	Amount	Number of claims/services	Amount (footnote 1)	Percent Error on Amounts
Capitation payments	40,784	\$233,103	415	\$4,335	1.906%
Fee-for-Service Payments	7,890	\$1,094,498	29	\$5,089	0.463%
Pharmacy Payments	4,958	\$165,773	30	\$437	0.263%
Total	53,632	\$1,483,374	474	\$9,861	0.660%

Notes for Table 1: Capitation, FFS and Pharmacy payment mismatches identified during the examination were identified to the Plan during the course of the examination. The discrepancies noted in the areas of Capitation, FFS and Pharmacy were considered to be de minimus and although identified in Table 1 above were not recommended as audit adjustments.

### B Summarize the total capitation and benefit payments within the detailed data provided by VCHCP and compare the total payments to the amount reported on Schedule 6 submitted by VCHCP.

Using the electronic file received from VCHCP in Section II (A) (a) above, and VCHCP's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files to the data on Schedule 6.

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers, not payments made by MRMIB to the Plans.*

**Table 2** (difference between Sch 6 reported and database detail)

<b>Description</b>	<b>Sch 6 (1-18 year olds)</b>	<b>Plan Data (All age groups)</b>	<b>Difference (0-364 day olds)</b>	<b>Percent Difference</b>
Capitation Payments	\$212,351	\$227,438	\$15,087	7.105%
Fee-for-Service Payments	\$940,658	\$1,099,587	\$158,929	16.896%
Pharmacy Payments	\$165,613	\$166,210	\$597	0.361%
Total	\$1,318,622	\$1,493,235	\$174,613	13.242%

**Note 1:** The data base provided by VCHCP was analyzed based on the period of service and has been determined the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through September 2008 after the exam period to ensure capture of all amounts which would have been identified via accruals/IBNRs.

**Note 2:** The discrepancy between Schedule 6 and Plan's data base was mainly resulted from the MRMIB capitation data which includes all HFP members age 0-18 (under age 19). The Plan is reporting HFP members aged 1-18 years old on Schedule 6. The Plan understood at the direction of MRMIB, and per the Rate Development Template instructions that only the 1-18 year olds were to reported on Schedule 6. As the instructions state that line 17 (Total Medical and Hospital) of schedule 7 (typo should be 6) should be equivalent to Health care expenditures calculated at the bottom of Schedule 1. (See attached response from the Plan)

**C Summarized the total payments made by VCHCP for the HFP subscriber, recalculated the loss ratio, and compared it to the loss ratio submitted by VCHCP on Schedule 6**

Table3 – Detailed reconciliation of detailed data files to Schedule 6

**Table 3**

CATEGORY	REPORTED ON SCHEDULE 6 (1-18 year olds)	BALANCE PER DMHC REVIEW (includes all age groups)	VARIANCE OVER/(UNDER) (0-364 day olds)
Subscriber Months	30,078	31,365	1,287
Premium Payments from State	\$2,450,587	\$2,813,315	\$362,728
<b>Affiliated Entities and Nonaffiliated Entities</b>			
Incentive Payments to Affiliated Parties	\$0	\$0	\$0
Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
Total Incentive Payments	\$0	\$0	\$0
<b>Expenses</b>			
<b>Medical and Hospital</b>			
Inpatient Services - Capitated	\$0	\$0	\$0
Inpatient Services - Per Diem	\$82,537	\$335,701	\$253,164
Inpatient Services - Fee for Service/Case Rate	\$14,133		(\$14,133)
Primary Professional Services - Capitated	\$124,824	\$139,118	\$14,294
Primary Professional Services - Noncapitated	\$294,765	\$555,463	\$260,698
Other Medical Professional Services - Capitated	\$87,527	\$88,320	\$793
Other Medical Professional Services - Noncapitated	\$549,223	\$208,423	(\$340,800)
Noncontracted Emerg Room and Out-of-Area Exp, not incl POS	\$0	\$0	\$0
POS Out-of-Network Expense	\$0	\$0	\$0
Pharmacy Expense	\$165,613	\$166,210	\$597
Other Medical Expense	\$124,887	\$126,452	\$1,565
Aggregate Write-ins for Other Medical and Hospital Expense	\$0	\$0	\$0
Total Medical and Hospital (lines 5 to line 16)	\$1,443,509	\$1,619,687	\$176,178
<b>Gross Profit</b>	<b>\$1,007,078</b>	<b>\$1,193,628</b>	<b>\$186,550</b>
<b>MEDICAL LOSS RATIO</b>	<b>58.90%</b>	<b>57.57%</b>	

**Note 1:** Comparison of the MRMIB capitation data and the Plan's Schedule 6 indicates a discrepancy. Review of Plan membership data in DMHC filed financial statements indicates a discrepancy. The Plan identified the source of the discrepancy, in advance of the audit, as being due to the Schedule 1 and Schedule 6 reporting methods. The MRMIB capitation data includes all HFP members age 0-18 (under age 19). The Plan is reporting only the 1-18 year olds on Schedule 6 per their understanding of the MRMIB instructions. Adjustments have been made on both premiums and expenses.

**Note 2:** Premiums were determined per exam based on the period of coverage identified within the MRMIB data files provided. Since VCHCP reports premiums based on "amounts" received and receivable, there will be a timing difference between the methodology of VCHCP and the

examination, due to the existence of significant retro activity in the MRMIB data. The examination data which accounts for premiums based on period of coverage is the more accurate methodology.

**Note 3:** Fee for Service (and Pharmacy) payments incurred for the period (per exam) were based on the VCHCP data base "Date of Service" field. The Balance per DMHC review has been determined based on a historic review of payment data with a look back based on the identified Service Date. The Schedule 6 methodology is based upon cash payments adjusted for IBNR.

**Note 4:** The Other Medical Expense category includes network access fees and health care service utilization costs and quality improvement costs.

### III Summary of Findings/Issues

- A The Plan is reporting only the 1-18 year olds on Schedule 6, per the Plan's understanding of the MRMIB Rate Development instructions and in collaboration with MRMIB. DMHC recommended that the Plan report 0-18 year olds on Schedule 6.

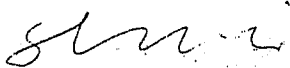
### IV Limitations

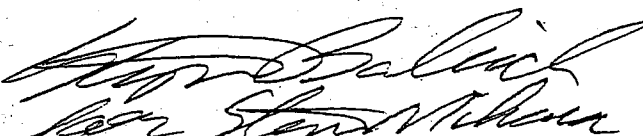
This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by VCHCP on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call us if you have any questions pertaining to this report.

Plan's comment letter to this report and DMHC's response to the Plan's comment letter are attached.

Sincerely,

  
Shuzhi Wei, Examiner  
Division of Financial Oversight

  
Steven Mihara, Supervisor  
Division of Financial Oversight

cc: Deborah Simmons, Federal Compliance Unit Manager, MRMIB  
Tony Lee, Chief Fiscal Services, MRMIB  
Mark Wright, Chief Examiner, DMHC  
Stephen Babich, Supervising Examiner, DMHC